



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
LLOYD ARNOLD'S FOOD SERVICES
STATEMENT OF INCOME FOR THE
TEN MONTHS ENDED DECEMBER 31, 1977**

Lloyd Franklin Arnold, doing business as Lloyd Arnold's Food Services, entered into an agreement with the State of California to operate, maintain and improve the concession facilities located in the race track grandstand and the stable area of the California Exposition and State Fair. The term of the agreement is for the three-year period March 1, 1977 through February 29, 1980.

In response to a resolution of the Joint Legislative Audit Committee, we have conducted a fiscal audit of the statement of income of Lloyd Arnold's Food Services for the ten months ended December 31, 1977.

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

811

AUDIT OF
LLOYD ARNOLD'S FOOD SERVICES STATEMENT OF INCOME
FOR THE TEN MONTHS ENDED DECEMBER 31, 1977



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Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature

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November 29, 1978

811

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully forwards the Auditor General's financial audit of Lloyd Arnold's Food Services.

The auditors are Curt Davis, CPA, Audit Supervisor; Merrill Tompkins, CPA; and Dennis Reinholtsen, CPA.

Sincerely,



RICHARD ROBINSON
Chairman

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
AUDITOR'S OPINION	2
STATEMENT OF INCOME December 31, 1977	3
SCHEDULE OF GROSS SALES	4
NOTES TO FINANCIAL STATEMENT	5
OTHER PERTINENT INFORMATION	8
RESPONSE TO THE AUDITOR GENERAL'S REPORT	9
APPENDIX A	A-1

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have conducted a fiscal audit of the Cal Expo racing enclosure concessionaire, Lloyd Arnold's Food Services. This audit was conducted under authority vested in the Auditor General by Section 10527 of the Government Code.

Lloyd Franklin Arnold, doing business as Lloyd Arnold's Food Services, entered into an agreement with the State of California to operate, maintain and improve the concession facilities located in the race track grandstand and the stable area of the California Exposition and State Fair. The term of the agreement is for the three-year period March 1, 1977 through February 29, 1980.

The agreement provides that Lloyd Arnold's Food Services make monthly rent payments to the State consisting of a stipulated percentage of gross sales (exclusive of sales taxes) based upon the physical location and item of sale.

Our audit covers the ten-month period, March 1, 1977 to December 31, 1977. This is the first period of operation for Lloyd Arnold's Food Services at Cal Expo.

AUDITOR'S OPINION

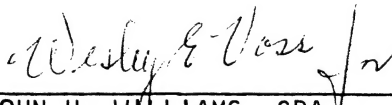
The Joint Legislative Audit Committee
of the California Legislature

We have examined the statement of income and related schedule of gross sales of Lloyd Arnold's Food Services for the ten months ended December 31, 1977. Except as explained in the following paragraphs, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not observe the taking of physical inventories as of March 1, 1977 (stated at \$0), and December 31, 1977 (stated at \$10,925) because these dates were prior to the time we began our audit of Lloyd Arnold's Food Services. Due to the nature of the records of Lloyd Arnold's Food Services, we were unable to satisfy ourselves as to the inventory quantities at December 31, 1977 by means of other auditing procedures. We were able to satisfy ourselves by means of other auditing procedures as to the value of the inventory at March 1, 1977.

The scope of our examination was limited by circumstances beyond our control. A test of salaries and wages disclosed that a number of the checks for salaries and wages were lost or misfiled and not locatable. (See Note 4.) Because we were not present to observe the taking of physical inventories as of December 31, 1977 and because we were unable to examine certain paid checks for salaries and wages, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to above.

Respectfully submitted,



JOHN H. WILLIAMS, CPA
Auditor General

October 26, 1978

Staff: Curt Davis, CPA
Merrill Tompkins, CPA
Dennis C. Reinholdtsen, CPA
Ulrich Pelz, CPA

LLOYD ARNOLD'S FOOD SERVICES
STATEMENT OF INCOME FOR THE
TEN MONTHS ENDED DECEMBER 31, 1977

Sales		\$1,053,622
Cost of Sales:		
Inventory, March 1, 1977 (Note 1)	\$ -0-	
Add: Net Purchases	<u>390,398</u>	
Cost of Goods Available for Sale	390,398	
Less: Inventory, December 31, 1977 (Note 1)	<u>10,925</u>	
Cost of Goods Sold		<u>379,473</u>
Gross Profit		674,149
Operating Expenses		
Salaries and Wages (Note 4)	\$325,214	
Management Fee (Note 2)	98,141	
State Commissions (Note 3)	176,235	
Laundry and Linens	26,766	
Disposable Serviceware and Supplies	20,999	
Repairs and Maintenance	18,598	
Equipment Rental	12,466	
Insurance	23,384	
Taxes and Licenses	8,935	
Telephone and Utilities	5,682	
Other Operating Expenses	19,323	
Depreciation and Amortization (Note 1)	<u>117,631</u>	
Total Operating Expenses		<u>853,374</u>
Net Loss (Note 5)		<u>(\$179,225)</u>

The accompanying notes are an integral part of this financial statement.

LLOYD ARNOLD'S FOOD SERVICES
SCHEDULE OF GROSS SALES
FOR THE TEN MONTHS ENDED DECEMBER 31, 1977

	<u>Turf Club 8%</u>	<u>BBQ Tent 8%</u>	<u>Concessions 25%</u>	<u>Concessions 20%</u>	<u>Tobacco 12.5%</u>	<u>Admissions 8%</u>	<u>Total</u>
Harness Meet	\$ 223,954	\$ 9,146	\$ 237,339	\$ -0-	\$ 7,913	\$ 40,436	\$ 518,788
State Fair	70,643	20,260	311,588	-0-	8,261	12,513	423,268
Other Functions	<u>38,173</u>	<u>-0-</u>	<u>6,313</u>	<u>10,897</u>	<u>130</u>	<u>-0-</u>	<u>55,513</u>
Total Commission Sales As Reported	332,770	29,406	555,240	10,897	16,304	52,949	997,566
Adjustments	<u>532</u>	<u>-0-</u>	<u>(270)</u>	<u>-0-</u>	<u>(147)</u>	<u>(63)</u>	<u>52</u>
Total Corrected Commission Sales	<u>\$333,302</u>	<u>\$29,406</u>	<u>\$554,970</u>	<u>\$10,897</u>	<u>\$16,157</u>	<u>\$52,886</u>	<u>\$997,618</u>
State Commissions	\$ 26,664	\$ 2,352	\$138,743	\$ 2,179	\$ 2,020	\$ 4,231	\$176,189
Less Paid	<u>26,621</u>	<u>2,352</u>	<u>138,809</u>	<u>2,179</u>	<u>2,036</u>	<u>4,236</u>	<u>176,235</u>
(Over) Under Payment	<u>\$ 43</u>	<u>\$ -0-</u>	<u>\$ (66)</u>	<u>\$ -0-</u>	<u>\$ (18)</u>	<u>\$ (5)</u>	<u>\$ (46)</u>

NOTE: The amount reported above as Total Corrected Commission Sales does not agree with the amount reported as Sales on the statement of Income. The difference of \$56,004 is caused by sales on which no commissions were paid to the State based upon terms of the agreement between Lloyd Arnold's Food Services and the State. Approximately \$39,000 of this difference is for sales made by the Backstretch Restaurant. The Backstretch Restaurant provides food to persons authorized to be in the stable area at cost and without profit to Lloyd Arnold's Food Services.

NOTES TO THE FINANCIAL STATEMENT
FOR THE TEN MONTHS ENDED DECEMBER 31, 1977

1. Summary of Significant Accounting Policies

The books and records of Lloyd Arnold's Food Services are maintained on the accrual basis of accounting.

Inventory: Inventory is valued on the basis of cost or market whichever is lower. This was the initial period of operation for the company. The beginning inventory at March 1, 1977 was stated at \$0. The ending inventory at December 31, 1977 was stated at \$10,925.

Depreciation: The straight-line method of depreciation is used for depreciating equipment. The depreciation expense for the period was \$26,267. This amount represents depreciation expense for nine months for equipment acquired in April 1977. The expected life of the equipment ranges from three to seven years.

Amortization: The straight-line method of amortization is used for amortizing leasehold improvements. The amortization expense for the period was \$91,364. The leasehold improvements are being amortized over a 35-month period. The 35-month period began in April 1977, when the improvements were made one month

after the grandstand facilities at the California State Exposition and Fair Grounds were leased from the State for the three-year period March 1, 1977 through February 29, 1980. The contract states that all leasehold improvements made during the period of the lease contract become the property of the State of California.

2. Management Contract

Management services were provided under contract by ARASERV, Inc., during the ten-month period of our review. The management contract provides in part that:

- (a) ARASERV, Inc., be paid a management fee equal to seven and one-half (7-1/2%) percent of gross receipts (excluding sales tax) from the concession operations
- (b) ARASERV, Inc., pay the salaries and fringe benefits of the managers provided by ARASERV
- (c) ARASERV, Inc., be paid on or before April 15, 1979, the sum of twenty-five thousand (\$25,000.00) dollars if ARASERV does not receive at least a second year to provide its services.

The management contract was terminated at the end of the first year. ARASERV has not attempted to enforce the \$25,000 payment provision of the contract. According to legal counsel, Lloyd Arnold's Food Services would contest enforcement on the basis of unsatisfactory performance under the contract by ARASERV.

3. State Contract

The contract with the State provides that monthly rent payments be made to the State consisting of a stipulated percentage of gross sales (exclusive of sales taxes) based upon the physical location and type of sale. The applicable percentages are as follows:

(a) Turf Club	8%
(b) Barbecue Tent	8%
(c) Concessions (alcohol)	25%
(d) Concessions	20%
(e) Tobacco	12.5%
(f) Admissions	8%

4. Salaries and Wages

Our test of salaries and wages included a statistical sample of paid checks. Lloyd Arnold's Food Services did not maintain the paid checks; instead they were kept by Crocker Bank.

We requested and received some checks but were informed that others could not be found. In addition, the bank considered that it was unreasonable to search for lost or misfiled checks and therefore no further search would be made. (See letter from Western Bradford Trust Company, Appendix A.)

5. Net Loss

The reported net loss (\$179,225) does not include any investment tax credit that Lloyd Arnold, an individual, may have taken as a reduction of his personal income tax liability.

OTHER PERTINENT INFORMATION

The terms of the concession agreement with the State require that Lloyd Arnold's Food Services operate the Turf Club Restaurant during all periods that are economically feasible. During the initial ten months of operation, March 1, 1977 through December 31, 1977, the Turf Club was open for all horse race meets and for 22 special events.

Special events were discontinued from January 1, 1978 to April 1, 1978. During that time improvements were made to the Turf Club and other grandstand facilities. Fourteen special events were held in the Turf Club during the period April 1, 1978 through July 10, 1978.

It is the stated intention of Lloyd Arnold's Food Services to operate the Turf Club and other grandstand facilities for banquets and special events on a year-round basis.

Financial information separating the results of operations for horse race meets and for special events are not shown in this report because expenditures for Lloyd Arnold's Food Services are not so segregated.

RESPONSE TO THE AUDITOR GENERAL'S REPORT

This report was reviewed by staff of Lloyd Arnold Food Service.

WESTERN BRADFORD TRUST COMPANY

130 Sutter Street • San Francisco, California 94104

October 26, 1978

Mr. Merrill Thompkins
Office of the Auditor General
925 "L" Street
Sacramento, California 95814

RE: Lloyd Arnold Food Services

Dear Mr. Thompkins,

Your office requested photocopies of 40 payroll checks issued, by WBTC, for our client, Lloyd Arnold Food Services (aka Lloyd Appling).

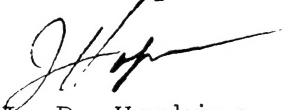
We have been able to provide you with copies of 31 checks. As I explained to you, Crocker Bank maintains the cancelled checks and provides us with photocopies when requested to do so. However, if the original check is lost or misfiled, a search is required on a "time available basis". When the first search is futile, any further research is deferred since the staff must maintain daily production.

Crocker and I have determined that to continue the search for the remaining 9 checks would be an unreasonable, non-revenue generating effort.

It is our hope you will accept this decision as reasonable and that we may consider your request for photocopies as satisfied.

Please accept my sincere apologies for the delay. If I can be of any further assistance, please do not hesitate to contact me.

Sincerely,



J. P. Hopkins
Manager
BSD Operations

JPH:de

Office of the Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Democratic/Republican Caucus
California State Department Heads
Capitol Press Corps